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BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

August 30, 2004

IN RE:

ATMOS ENERGY CORPORATION

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

)

) **Docket No. 04-00190**

**NOTICE OF FILING BY ENERGY AND WATER DIVISION OF THE
TENNESSEE REGULATORY AUTHORITY**

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority (the "Energy and Water Division") hereby gives notice of its filing of the Atmos Energy Corporation WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Atmos Energy Corporation (the "Company").

2. The Company's WNA filings were received on November 1, 2003, through April 30, 2004, and the Staff completed its audit of same on July 22, 2004.

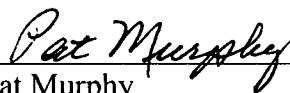
3. On July 26, 2004, the Energy and Water Division issued its preliminary WNA audit findings to the Company, and on August 4, 2004, the Company responded thereto.

4. The preliminary WNA audit report was modified to reflect the Company's responses and a final WNA audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report

contains the audit findings of the Energy and Water Division, the Company's responses thereto and the recommendations of the Energy and Water Division in connection therewith.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:



Pat Murphy
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 30th day of August, 2004, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Pat Miller
Chairman
Tennessee Regulatory Authority
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Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

ATMOS ENERGY CORPORATION

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

Docket No. 04-00190

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

AUGUST 2004

COMPLIANCE AUDIT
UNITED CITIES GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 04-00190

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COMPLIANCE AUDIT
ATMOS ENERGY CORPORATION
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 04-00190

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment ("WNA") Rider of Atmos Energy Corporation ("Atmos" or "Company"). The objective of this audit is to determine if the WNA adjustments were calculated correctly and applied to customers' bills appropriately between November 1, 2003 and April 30, 2004. As a result of the WNA Rider, the Company surcharged a net \$ 669,763 and \$ 278,638 to the residential and commercial customers respectively during the period. The impact of WNA revenues on the Company's total revenues is detailed in Section V.

The Staff's audit results showed that the Company over-collected \$16,401.35 from its customers. See Section VI for a description of the Staff's findings. This amount is considered immaterial compared to the total amount billed. Therefore, except for the findings noted in this report, Staff concludes that Atmos is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority ("TRA" or the "Authority") and included in the Company's tariff. (See Attachment 1)

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis:

- (1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration ("NOAA") actual heating degree days;
- (2) the Company's normal heating degree days to the normal heating degree days calculated in the last rate case; and
- (3) the Company's calculation of the WNA factor to Staff's calculation.

The Staff also audited a sample of customers' bills representative of the WNA period to verify that the WNA factor was correctly applied to the bills.

Pat Murphy and Butch Phillips of the Energy and Water Division conducted this audit.

III. BACKGROUND INFORMATION ON THE COMPANY

Atmos Energy Corporation with its principal office at 810 Crescent Centre Drive, Franklin, Tennessee, is a wholly owned subsidiary of its parent company Atmos Energy Corporation, located in Dallas, Texas. Atmos is a multi-state gas distributor, providing service to multiple communities in Tennessee. The gas to serve these areas is purchased by Woodward Marketing¹, and delivered by four natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission. The four interstate pipelines are East Tennessee Natural Gas ("ETNG"), Texas Eastern Transmission Corporation ("TETC"), Columbia Gulf Transmission Corporation ("CGTC"), and Texas Gas Transmission Corporation ("TGTC")

ETNG provides service to Atmos in Tennessee for the Columbia, Shelbyville, Lynchburg, Maryville-Alcoa, Morristown, Bristol, Elizabethton, Gray, Greeneville, Johnson City, and Kingsport areas.

TETC and CGTC provide service to Atmos in Tennessee for Murfreesboro, Nolensville, Franklin, and adjacent areas in Rutherford and Williamson Counties.

TGTC provides service to Atmos in Tennessee to Union City and adjacent areas in Obion County.

¹ Woodward Marketing is the wholly owned marketing arm of Atmos Energy Corporation

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT RIDER

On September 26, 1991, the Tennessee Public Service Commission² ("PSC") approved a three-year experimental Weather Normalization Adjustment Rider³ to the tariffs of Chattanooga Gas Company, Nashville Gas Company, a division of Piedmont Gas Company, Inc. and United Cities Gas Company.⁴ The WNA Rider was to be applied to residential and commercial customers' bills during the months of October through May of each year (See Attachment 1). On June 21, 1994, the PSC issued an Order authorizing the above mentioned gas companies to permanently implement an amended version⁵ of the WNA Rider. Atmos is authorized to calculate WNA adjustments during the months of November through April of each year. The TRA Staff annually audits these calculations.

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

However, normal weather rarely occurs. This has two impacts:

- (1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and
- (2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

² By legislative action, the Public Service Commission was replaced on July 1, 1996 by the Tennessee Regulatory Authority. See Act of May 24, 1995, ch. 305, 1995 Tenn. Pub. Acts 450. The TRA retains jurisdiction over the above named gas companies. See Tenn. Code Ann. § 65-4-104, see also Tenn. Code Ann. § 65-4-101 (a) (defining public utility).

³ See petition of Chattanooga Gas Company, Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company for a Rulemaking Hearing to Adopt a Weather Normalization Adjustment (WNA) Rider, Docket No. 91-01712, Order (September 26, 1991).

⁴ On July 31, 1997, United Cities Gas Company was acquired by Atmos Energy Corporation located in Dallas, Texas. Following the acquisition, the Company continued operating as United Cities Gas Company, a division of Atmos Energy Corporation. On September 4, 2002, Atmos Energy Corporation filed tariffs with the Authority to cease the use of the name "United Cities Gas Company" and to reflect the corporate name of "Atmos Energy Corporation." Effective October 1, 2002, Atmos Energy Corporation announced that all divisions of the company would start doing business as Atmos EnergyTM.

⁵ The amendment directed Chattanooga Gas Company and United Cities Gas Company to eliminate from their WNA Rider the shoulder months of October and May, and Nashville Gas Company to eliminate the shoulder months of October, April and May.

In recognition of this fact, the TRA approved an experimental WNA mechanism, which became permanent on June 21, 1994, to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

V. IMPACT OF WEATHER NORMALIZATION ADJUSTMENT RIDER

The graphs appearing at the end of this section show a comparison of actual heating degree days to normal heating degree days for Atmos Energy Corporation during the 2003 - 2004 heating season, in each of its four service areas. Weather conditions changed dramatically from the previous winter, where overall weather was colder than normal. During the past winter, overall, weather was 2.0% warmer in the Bristol area, 1.3% warmer in the Knoxville area, 6.9% warmer in the Nashville area, and 3.5% warmer in the Paducah area. The following tables show a comparison of the actual degree days (ADD) to normal degree days (NDD) by month for the four weather stations.

Bristol:

Month	ADD	NDD	Percent Change	
October 2003	288	268	7.5%	Colder
November 2003	429	268	-19.2%	Warmer
December 2003	890	805	10.6%	Colder
January 2004	976	937	4.2%	Colder
February 2004	761	780	-2.4%	Warmer
March 2004	463	553	-16.3%	Warmer
April 2004	<u>292</u>	<u>284</u>	2.8%	Colder
Total	<u>3811</u>	<u>3890</u>	-2.0%	Warmer

Knoxville:

Month	ADD	NDD	Percent Change	
October 2003	206	204	1.0%	Colder
November 2003	358	460	-22.2%	Warmer
December 2003	818	726	21.7%	Colder
January 2004	853	853	0.0%	Warmer
February 2004	708	685	3.4%	Colder
March 2004	365	463	-21.2%	Warmer
April 2004	<u>243</u>	<u>203</u>	19.7%	Colder
Total	<u>3345</u>	<u>3390</u>	-1.3%	Warmer

Nashville:

Month	ADD	NDD	Percent Change	
October 2003	150	190	-21.1%	Warmer
November 2003	341	451	-24.4%	Warmer
December 2003	761	729	4.4%	Colder
January 2004	814	870	-6.4%	Warmer
February 2004	698	697	0.1%	Colder
March 2004	365	466	-21.7%	Warmer
April 2004	<u>201</u>	<u>201</u>	0.0%	Warmer
Total	<u>3180</u>	<u>3414</u>	-6.9%	Warmer

Paducah:

Month	ADD	NDD	Percent Change	
October 2003	200	197	1.5%	Colder
November 2003	408	483	-15.5%	Warmer
December 2003	784	797	-1.6%	Warmer
January 2004	948	954	-0.6%	Warmer
February 2004	782	755	3.6%	Colder
March 2004	409	503	-18.7%	Warmer
April 2004	<u>231</u>	<u>199</u>	16.1%	Warmer
Total	<u>3562</u>	<u>3691</u>	-3.5%	Warmer

Due to the fact that overall the winter was warmer than normal, the net impact the WNA Rider had on the Company's revenues was that residential and commercial customers were **surcharged** \$669,763 and \$278,638 respectively. This equates to an increase in revenues from residential and commercial sales of 3.28% and 2.11% respectively. (See Table 1) The previous year, due to colder than normal weather, the residential and commercial customers were **refunded** \$823,402 and \$395,803 respectively. (See Table 2)

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 1, 2003 - April 30, 2004**

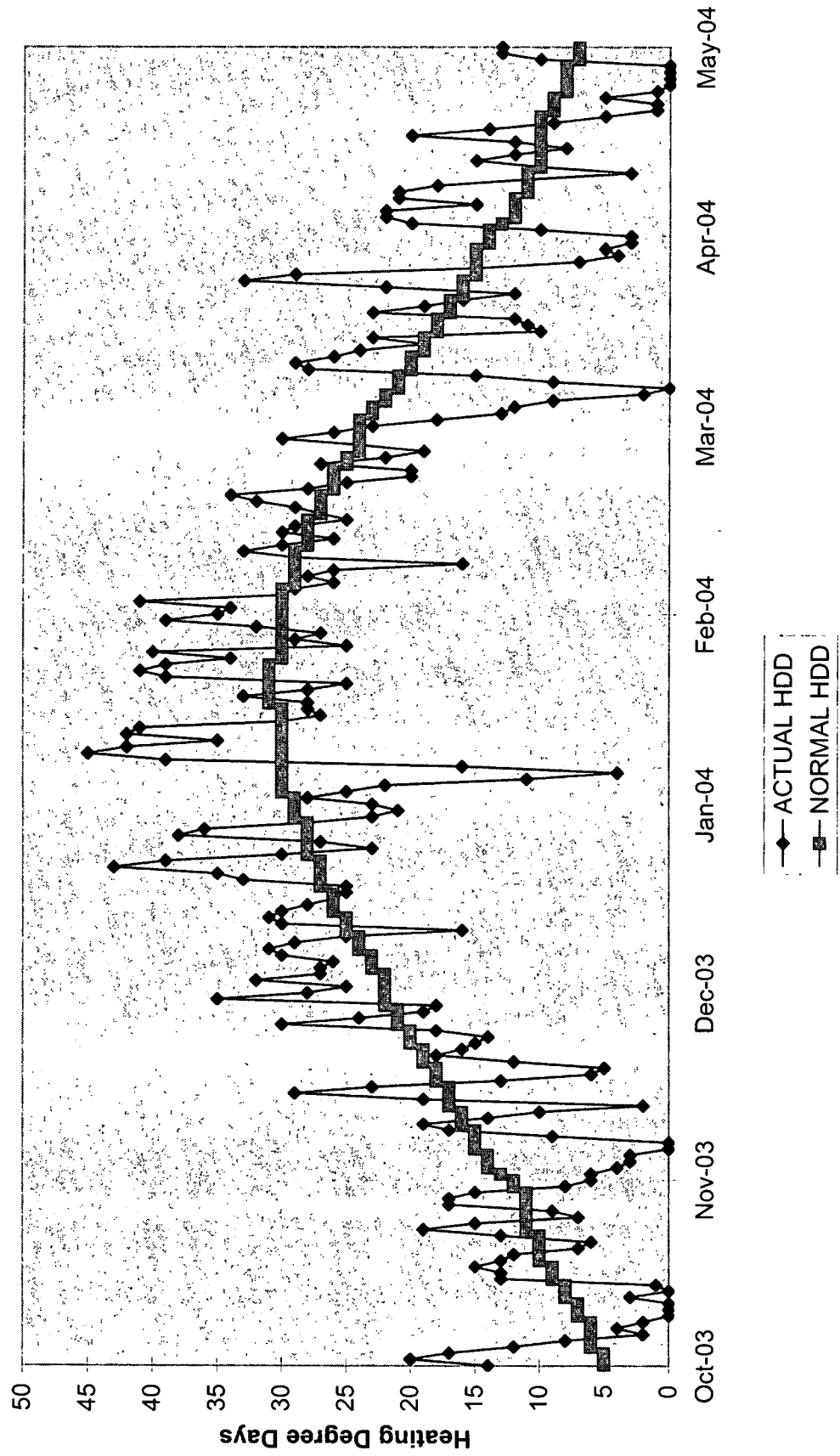
	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider On Revenues</u>
Residential Sales	\$669,763	\$20,424,112	3.28%
Commercial Sales	<u>278,638</u>	<u>13,215,565</u>	2.11%
Total	<u>\$948,401</u>	<u>\$33,639,677</u>	2.82%

Table 2

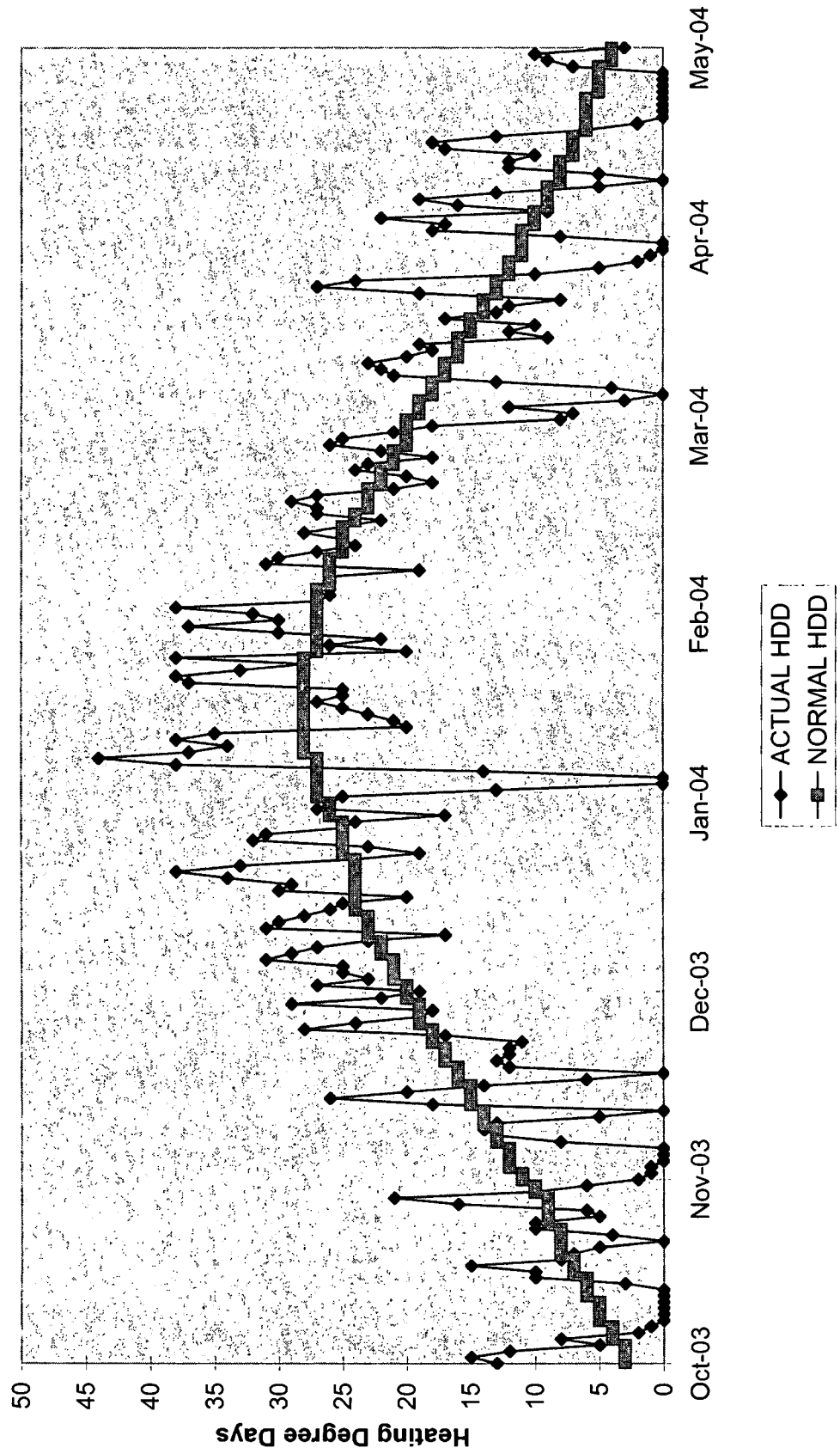
**Amount Surcharged (Refunded)
2001 - 2004**

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/(Refund)</u>
11/01-4/02	\$ 1,496,387	\$ 766,175	\$ 2,262,562
11/02-4/03	-823,402	-395,803	-1,219,205
11/03-4/04	<u>669,763</u>	<u>278,638</u>	<u>948,401</u>
Total	<u>\$ 1,342,748</u>	<u>\$ 649,010</u>	<u>\$ 1,991,758</u>

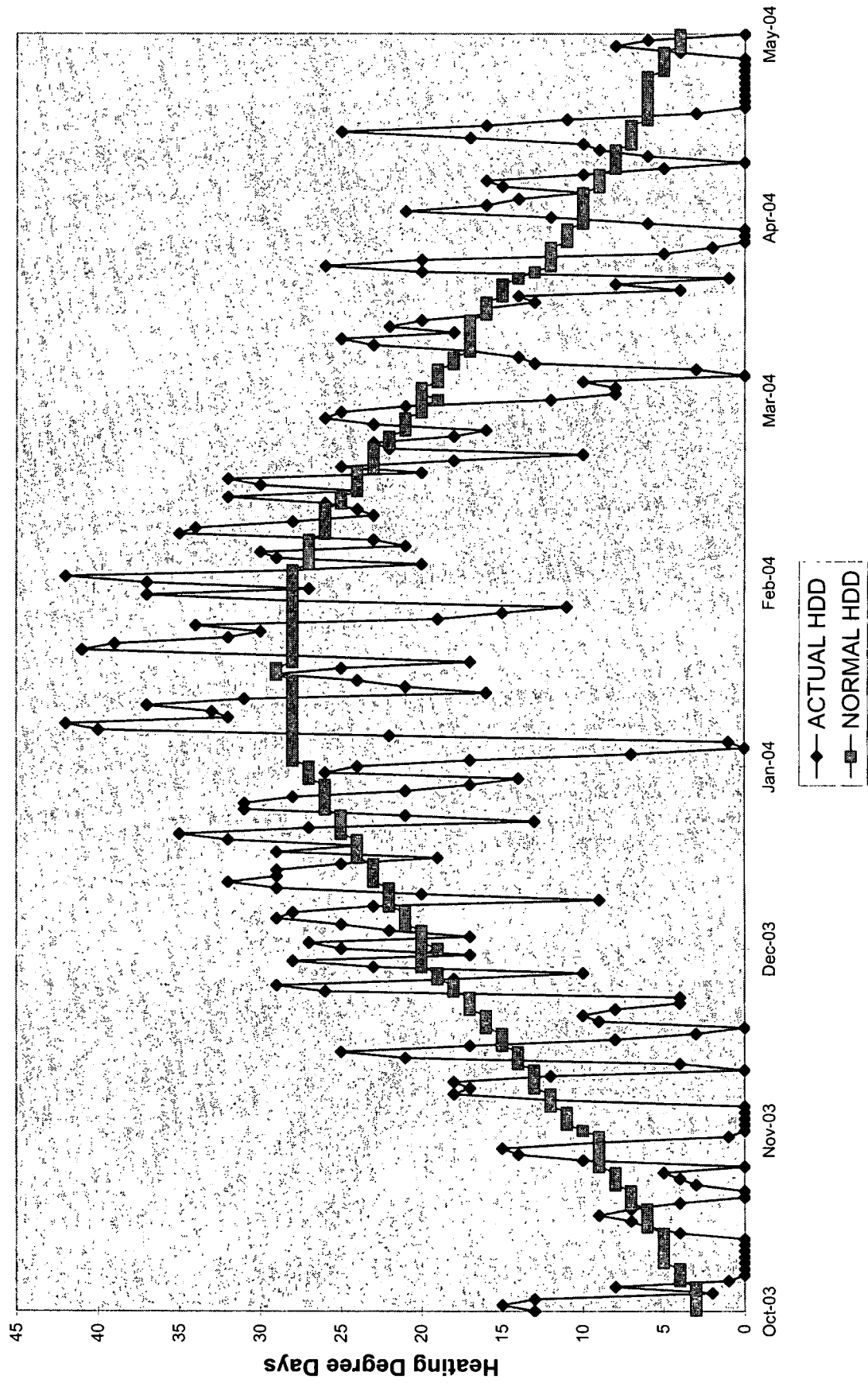
Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Bristol Weather Station



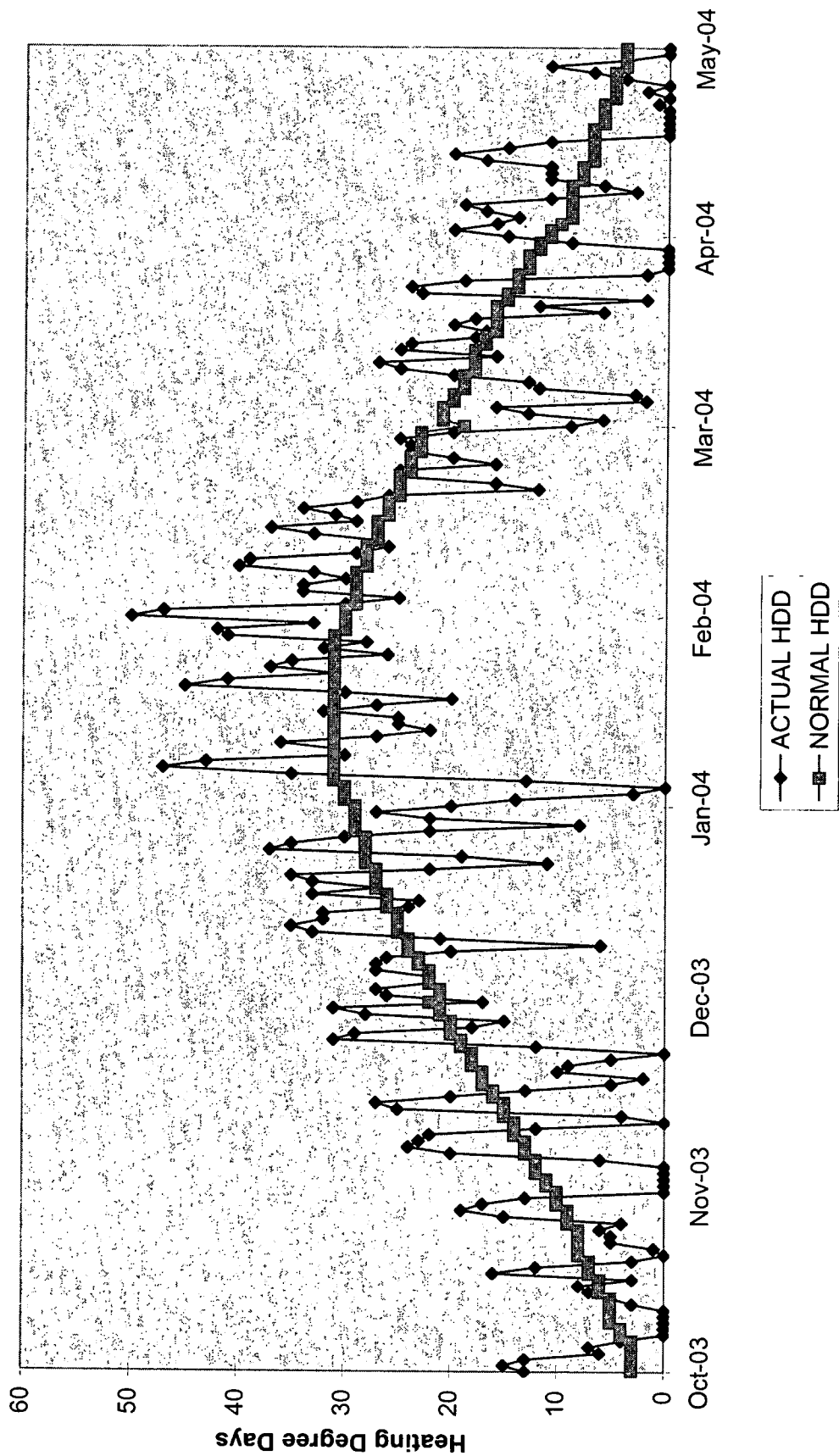
Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Knoxville Weather Station



United Cities Gas Company
Comparison of Actual to Normal Heating Degree Days
Nashville Weather Station



Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Paducah Weather Station



VI. WNA AUDIT FINDINGS

The Staff's audit results showed an **over-recovery** from Atmos's ratepayers in the amount of **\$16,401.35** (summarized below). This over-recovery resulted from one (1) finding, which is explained on the following page.

Weather Station	Company Filed	Staff Corrected Filing	Difference	Under/(Over)- Recovery
Bristol	\$ 51,895.72	\$ 47,213.82	\$ (4,681.90)	Over-Recovery
Knoxville	49,099.07	45,387.48	(3,711.59)	Over -Recovery
Nashville	821,348.98	814,239.96	(7,109.02)	Over -Recovery
Paducah	<u>26,056.75</u>	<u>25,157.91</u>	<u>(898.84)</u>	Over-Recovery
Total	<u>\$ 948,400.52</u>	<u>\$ 931,999.17</u>	<u>\$ (16,401.35)</u>	<i>Over-Recovery</i>

SUMMARY:

				Page
FINDING #1	Inaccurate daily heating degree days	\$(16,401.35)	Over-recovery	9
TOTAL		<u>\$(16,401.35)</u>		

FINDING #1:

Exception

The Company used inaccurate actual daily heating degree days in the calculation of the WNA factor.

Discussion

The audit period consisted of 848 weather observations (212 days in the period times four weather stations). Staff's audit indicates that the Company used inaccurate actual daily heating degree days in the calculation of the WNA factor on 3 days of the WNA period for the Paducah weather station, 2 days for the Nashville weather station, 3 days for the Knoxville weather station, and 5 day for the Bristol weather station, for a total of **thirteen (13) weather observations**. These inaccuracies resulted from the fact that, for the days in question, daily heating degree days published in NOAA's Local Climatological Data report⁶ differed from the daily heating degree days that the Company used in calculating its WNA factors.⁷

Ten (10) of the thirteen (13) differences mentioned above were one degree-day. The one-day differences can sometimes be explained by rounding differences in the formula used to calculate the number of degree days on a specific day. See the Company's Response below for a more complete explanation of the differences.

Weather Station/ Date	Company Actual Degree Days	NOAA Actual Degree Days	Difference
<u>Paducah:</u>			
10/04/2003	5	6	1
10/16/2003	1	3	2
10/25/2003	3	4	<u>1</u>
			4
<u>Nashville:</u>			
01/27/2004	27	28	1
03/06/2004	12	13	<u>1</u>
			2
<u>Knoxville:</u>			
10/14/2003	0	3	3
01/30/2004	31	32	1
02/06/2004	18	19	<u>1</u>
			5

⁶ This published report is the official data supplied by NOAA and is the standard that the Staff uses to audit the Weather Normalization Rider

⁷ See Table below for detail of the differences

Weather Station/ Date	Company Actual Degree Days	NOAA Actual Degree Days	Difference
<u>Bristol:</u>			
10/04/2003	16	12	-4
10/18/2003	12	13	1
11/08/2003	16	17	1
12/05/2004	25	26	1
12/06/2003	29	30	1
			0
		Net Difference	<u>11</u>

The net result of these actual degree day errors is that customers were **over-charged \$16,401.35.**

Company Response

The company's goal is to provide accurate bills to all customers each month. During WNA season, the company is at the mercy of a weather provider and as staff pointed out the company did in fact use inaccurate actual daily heating degree days on thirteen (13) occasions during the last WNA season. The company uses the data provided by the weather provider and at the time of billing the company does not know if the data is accurate or not. In the future, the company will strive to provide the most accurate bills possible.

VII. RECOMMENDATIONS AND CONCLUSIONS

The Company has responded to the Staff's audit findings and we are satisfied that the Company is appropriately addressing the one area of deficiency. As stated in Section I, except for the findings noted, the Staff concludes that Atmos is correctly implementing the mechanics of its WNA Rider. We recommend that the Company include this over-collection in its next Refund Due Customers filing with the TRA. This is the method the Company has customarily used.

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDERProvisions for Adjustment

The base rate per therm/Ccf (100,000 Btu) for gas service set forth in any Rate Schedules utilized by the Tennessee Regulatory Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment." The Weather Normalization Adjustment shall apply to all residential and commercial bills based on meters read during the revenue months of November through April.

Definitions

For purpose of this Rider:

"Regulatory Authority" means the Tennessee Regulatory Authority

"Relevant Rate Order" means the final order of the Regulatory Authority in the most recent litigated rate case of the Company fixing the rates of the Company or the most recent final order of the Regulatory Authority specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

Computation of Weather Normalization Adjustment

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per therm/Ccf by the following formula:

$$WNA_i = R_i \frac{(HSF_i (NDD-ADD))}{(BL_i + (HSF_i \times ADD))}$$

Where

- i = any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification
- WNA_i = Weather Normalization Adjustment Factor for the i^{th} rate schedule or classification expressed in cents per therm/Ccf
- R_i = weighted average base rate of temperature sensitive sales for the i^{th} schedule or classification utilized by the Tennessee Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER (Continued)

- HSF_i = heat sensitive factor for the ith schedule or classification utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- NDD = normal billing cycle heating degree days utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- ADD = actual billing cycle heating degree days
- Bl_i = base load sales for the ith schedule or classification utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

Filing with Regulatory Authority

The Company will file as directed by the Regulatory Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and (c) a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.

Heat Use/Base Use Factors

<u>Town</u>	<u>Residential</u>		<u>Commercial</u>	
	Base use <u>Ccf</u>	Heat use <u>Ccf/HDD</u>	Base use <u>Ccf</u>	Heat use <u>Ccf/HDD</u>
Union City	13.906292	.156369	124.595029	.453633
Columbia Shelbyville Franklin Murfreesboro	13.035323	.173948	99.021858	.624513
Maryville Morristown	13.886330	.153366	111.454966	.658649
Johnson City Elizabethton Kingsport Greeneville Bristol	10.696903	.162066	169.773651	.611201